PRESENTATION BEFORE JOINT COMMITTEE ON PENSION SYSTEMS

SEPTEMBER 27, 2016

HOW DID WE GET WHERE WE ARE TODAY?

WHERE DO WE GO FROM HERE?

My name is Wayne Pruitt. I am the vice-president of the State Retirees Association. I spent almost my entire career in government working at the SC Retirement Systems, the last 7 of those years as the chief financial officer.

In answering the question of how we got where we are I will address 3 issues.

First – COLA's

COLA's equal to the CPI, up to 4%, were granted every year for 40 years (1968 - 2007).

All COLA's prior to 2005 were granted on an ad-hoc basis- meaning they were not recognized as an actuarial liability until granted even though the State had a long history of granting these increases. To my knowledge no additional funding was provided for these increases.

In the early 1980's the legislature created a "post retirement special increase fund" specifically to prefund COLAs. Funding began at ½% of pay and, as I recall the plan was to increase this rate until it reached the level needed to fully pre-fund COLA's. This fund was closed in 1986, essentially because adequate funding was not provided.

I make 2 points on this issue – Clearly adequate funding was historically not provided to properly fund COLAs. I also seriously doubt that a single legislator received a single call from a constituent demanding that COLAs be actuarially funded.

Second – Investments and Investment Returns

Much has been said about the poor returns over the past decade. I know of no one, including retirees, who is happy with our returns. Some have attributed our current dire straits solely to investment performance over the past 10 years.

Before we throw somebody under the bus let's look back a little further. SC was the last public plan to diversify into equities. From 1945 until the late 1990's our plan was invested solely in high grade fixed income securities. S&P 500 returns for the 10 year period of the 1980's were in the 12% range. Returns for the 10 year period of the 1990's were over 15%. Do we dare ask where we would be if we had adopted a diversified portfolio years earlier?

Funding of Benefit Enhancements

Repeatedly during my tenure and since the cost of benefit enhancements have essentially been "financed" by extending the unfunded liability amortization period. We continue to refinance our mortgage when we add the swimming pool, when we add the sunroom, rather than paying for them.

Most recently we saw this with TERI and unlimited return to work rules for retirees. That barn door was closed but most of the horses were already gone.

In answering the question as to where we go from here I offer just a few comments.

There are no magic wands. It took many years for this plan to get to where it is today and it will take many years of fiscal discipline to improve our condition.

Our State Treasurer made a very profound statement some time back. Something to the effect that we cannot invest our way out of this, we cannot save our way out of this. We concur.

If the state had adopted ERISA (Employee Retirement Income Security Act) like rules related to funding levels we would be in a much different place today.

Perhaps it's time to look at ERISA funding provisions and adopt those that make sense for a public plan.

Retiree COLAS have already been reduced from full CPI up to 4% to 1%, with a $500 per year cap.

Active employee contribution rates are some of the highest in the country.

Employer contribution rates I believe are below median.

This concludes my prepared remarks. I appreciate the opportunity to speak to this committee and appreciate your dedicated service to all of us as you work through what will unquestionably be a difficult task with no easy answers.